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GENERAL MANAGEMENT ASSISTANCE CONTRACT (GMAC)

**Contract No: 674-C-00-01-00051-00**

**Innovations in Rural Finance**

Contract or Grantee number: 0125-1003-G-GA33



World Education

This report was produced for review by the USAID. It was prepared as a performance milestone under Mega-Tech, Inc.'s prime contract. The contents of this report address activities performed under USAID/South Africa's Strategic Objective No. 9: Increased Market Driven Employment

Please direct all queries regarding this report to:

Mega-Tech/South Africa  
Bank Forum Building  
Lobby 1, Second Floor  
337 Veale Street  
New Muckleneuk  
0181 Pretoria RSA  
Tel. 012 452 0060  
Fax 012 452 0070  
Email [megatech@intekom.co.za](mailto:megatech@intekom.co.za)

Or

Mega-Tech, Inc.  
1749 Old Meadow Road  
McLean  
Virginia 22012  
Tel. (703) 534-1629  
Fax (703) 534-7208  
Email [info@mgtech-world.com](mailto:info@mgtech-world.com)

### **Activity Summary and achievements:**

The broad goal of this grant was to increase access for historically disadvantaged Individuals and SMMEs, particularly rural-based women-owned micro-enterprises, to a range of more secure and cost-efficient financial services.

Historically the mass market or poor have been excluded from the provision of financial services by the financial sector, which is geared to service those with capital and assets. Cost considerations, inadequate technology, poor infrastructure and volume of business have been some of the reasons given by the financial sector for its unwillingness or inability to provide financial services to the poor. In South Africa this exclusion was also justified by the failed ideology of apartheid and racial discrimination. The 2003 Finscope Study into the Financial Needs and Behaviour of the SA Population 2003 estimates the unbanked population at 9,749 769 million or 35% of the population.

This research and reflection study was undertaken with the following objectives in mind:

- To explore the potential of debit card & mobile POS technologies as a means for increasing financial services to the mass market or poor in South Africa and to review current trends and developments in electronic banking internationally;
- To survey the South African banking landscape and understand the challenges facing this sector;
- To compare and contrast the different elements that make up the major South African banks' POS package of services & costs to the merchant;
- To examine in greater detail how new developments in electronic banking could help to increase the provision of financial services to the poor; and
- To reflect on World Education's efforts to use electronic banking as a vehicle for increasing financial services to the poor.

Refer to the Tranche 6, Milestone 17c Report for a summary of the activities, achievement and the lessons learnt under this grant.

**Contents of this report:**

- 1) Tranche 6, Milestone 17c Report – The Electronic Banking Revolution (Nov. 2005) with Annexure A and B;
- 2) Success story: World Education's Innovations in Rural Finance; and
- 3) Narrative Progress Report (FY2005).

## **Success Story; World Education's Innovations in Rural Finance**

**Headline-** Increasing access to financial and market systems for South Africa's historically disadvantaged individuals through cost-benefit banking

**Subhead-** Bridging the gap through innovations in rural finance for South Africa's Historically Disadvantaged

**Photograph- Allan Hackner (USAID - SO9), Hesi (Self-employed business-woman) and Nomsa (Beehive A-Card Consultant)**

**Permission to use photograph-** Yes

**Photographer's Name-** Trish Heimann and Sanjeev Singh

**Photographer's Organization-** Mega-Tech, Inc. / World Education (Implementing Agent)

**Photograph's Caption-** Hand-made items made by rural business-women with cost-effective access to financial services

### **Story Lead-**

Mpumalanga, the face of the rising sun, is a province located in North-East South Africa. It's peri-rural population is growing 3% faster than the national average as the province attracts increasing numbers of young entrepreneurs, migrant workers, and the rural destitute. It is in this context that World Education Ntinga has facilitated a business linkages program called the 'Innovations in Rural Finance (IRF) Programme', which is a collaborative effort between World Education, the Beehive Group, and Teba Bank.

Teba Bank focuses on designing and offering products and services tailored to the people who have not previously had access to banking services. Thus, the primary target markets are low-income employees and their dependants in the rural areas, the un-banked and the informally employed.

### **Main Body-**

Teba Bank's A-Card, piloted during 2004 and 2005, offers a 'simple' and 'safe' method of providing bank accounts to a market that has previously been marginalized. 'Simple' means that clients can open a bank account without going into a branch, being formally employed or following a lengthy application using the latest technology to ensure cost efficiency. 'Safe' means that these people no longer have to carry large amounts of cash, with a high likelihood of being mugged or robbed. The card is affordable (with no fixed monthly administration fees, and can be used at

all ATMs and debit card merchants. It provides clients with a mechanism to pay for purchases, pay third parties, obtain cash or make deposits.

The A-Card system supports small businesses and the creation of more jobs. Pilot survey findings reveal that almost half of the A-Card clients are self-employed. This is visible from the various A-Card women who were visited. Sonto started out selling clothes for a profit and with the profits has opened up a coal yard for additional income. What Sonto likes about the A-Card is *“there are savings on the charges and it’s also a life-time account, therefore, if transactions aren’t made for some time, the account still remains open.”*

Preeneth sells a variety of things from clothes, vitamin and mineral tablets for the HIV positive, to dinner sets and jewellery. She sometimes uses a loan facility from Beehive for purchasing the clothes. The benefit of her other business initiatives is that there are no upfront costs. She sells directly to the public through orders and sometimes also goes out to recruit people to sell the products for themselves for commission. She says that a benefit of the A-Card is that *“you don’t have to carry cash with you if you want to purchase groceries”*. Preeneth uses the POS point in stores to withdraw money, which she says *“works out cheaper than going to an ATM”*. She has also recruited others to use the A-Card. The only disadvantage she finds is that she *“cannot use the card everywhere, so needs to use cash”*. A limitation of the A-Card is that it cannot be used in many places. Preeneth together with a group of women who sell clothes, go monthly to purchase clothes from Gauteng to take back and sell in their villages. All these women take a lot of cash with them, which is unsafe. Teba-Bank is not well known and places outside Mpumalanga won’t accept the A-Card until it is visa branded, which should take place by the end of 2005.

Hesi is very artistic with her pottery (as shown in photo). She also sells various items, including her painted pots, traditional woven mats and hand-made brooms. She sells by taking orders and has recently expanded her business to another area, where her pots are displayed in a curio shop. She has also taken a loan from Beehive to purchase the raw materials to make her goods. Hesi puts her profits into her A-Card account and withdraws money when she needs it.

Out of all the women visited, Sophie was the most impressive in terms of being a successful business-woman. Her main business is selling Avroy Shlain products, but she is also a Jack-of-all-trades, selling duvets, clothes and crockery too. She has expanded her business to other towns in Mpumalanga and acts as a wholesaler and *“makes up to R80,000 per month”*. Sophie has taken various loans from Beehive, for additions to her house, as well as for purchasing her stock. She just purchased a brand new car with her profits. She uses the A-Card *‘as a savings account where she withdraws and deposits money’*.

Some other positive findings of the A-Card are that out of 60 A-Card clients surveyed, about 90% of them indicated that the charges on the A-Card are lower than those of other banks. However, almost all A-Card clients indicated that they make withdrawals from another bank’s ATM. This has higher costs attributed to it, therefore, accessibility seems more important to clients than price.

The Pilot study surfaced challenges that directly relate to the visibility and accessibility of Teba Bank. The association of the A-card with Teba Bank seems limited mainly due to the fact that customers were issued the card through Beehive and are referred to the Beehive call centre when they experience any problems. Because Teba Bank has a low presence and poor infrastructure, many Beehive A-Card clients associate the card with Beehive as the banking mechanism, rather than Teba-Bank.

There is also a lack of availability of Teba Bank ATMs and branches, thus clients use mainly ABSA and some FNB machines to withdraw money from their A-Card accounts. This means that although the card's purpose is to be a cheaper way of banking for the lower-income bracket, these individuals are paying more for bank transactions by using other ATMs.

### **Summary-**

The purpose of a pilot is to learn from it. Challenges have been identified through the process and the A-Card system is being improved. To date, 4,404 A-Cards have been processed and clients are utilising the product.

The Innovations in Rural Finance Programme has demonstrated how to bridge the gap between South Africa's advanced financial and market systems and the vast majority of SMMEs and historically disadvantaged individuals who have little access to the cost- and time-saving mechanisms customary to normal business.

Through funding this pilot, USAID has provided the opportunity to identify what mechanisms could work best in reaching the historically disadvantaged. Currently, other modes of access are being considered such as cell-phone technology to make the Point Of Service more effective for clients. While more effective technologies are being developed to reach the poorer, more rural markets, clients continue to appreciate and benefit from safer, simpler and more cost-effective financial services.

**Pullout Quote-** Teba Bank's A-Card, piloted during 2004 and 2005, offers a 'simple' and 'safe' method of providing bank accounts to a market that has previously been marginalized.

### **Background Information-**

**Date-** Story written in October 2005

**Country of Story-** South Africa

**City or Region of Story-** Mpumalanga, South Africa

**USAID program-** Strategic Objective 9: Increased Market Driven Employment Created.

**Presidential Initiative-**N/A

**Contractor-** Mega-Tech, Inc.

**Other-**

**Submitter**

**Name-** Trish Heimann

**Organization-** Mega-Tech

**Email-** pheimann@intekom.co.za

**Phone-** +27 (0) 12 452 0060



**GMAC Grantee Narrative Report**

Grantee World Education

Agreement No. 0125-1003-G-  
GA33

Report for the period:

☐ **October 1, 2004 through September 30, 2005**

The Innovations in Rural Finance (IRF) Programme is a collaborative effort among World Education, the Beehive Group, and Teba Bank. The programme aims to provide and widen cost-effective access to financial services among rural SMMEs and residents in Mpumalanga province, via piloting of the A-Card, a unique debit card system that is geared toward lower-income individuals.

As of the start of October 2004, the project had been running for three months, and accomplishments included: Team Set Up; Implementer Agreements & Product Marketing; Policies & Product Marketing Review; Systems Upgrade; and extensive Staff training.

**Achievements during Reporting Year (October 2004 – September 2005)**

**TARGETS**

As of August 31, 2005, **4,404 A-Cards** have been processed to date, which exceeds the revised target set of 4300 clients.

In chronological order, some of the key achievements and outputs included:

**1. Client Evaluation Survey:** This was undertaken to gauge the level of client satisfaction with the A-Card, identify problems, and indicate needs for improvement. The report was completed and the findings were presented in late October, 2004.

56 A-Card clients were interviewed and, even at this early stage, there was **substantial positive sentiment**. All 56 respondents said they were happy with what the A-Card offered them, and 96% stated that the A-Card had increased their access to banking services. Positive factors cited were: low cost of transactions; ability to make deposits and withdrawals; no monthly fee; and fact that the card remains active for life.

**2. The MLAS (Micro Loans Administration Systems)** was modified to allow Beehive management to know exactly

- how many A-Card applications have been captured,
- who are the top performing and underperforming RLOs,
- what is the monthly shortfall in the number of A-Card applications received
- what incentives have to be paid to each RLO.

These reports are circulated and discussed at the weekly RLO and management meetings.

3. **A Client Problem Logging System** was designed, and is being regularly used to ensure that client problems are properly logged; attended to timeously; and that Beehive understands the type of problems occurring and is able to lease with Teba Bank more effectively to resolve them.

4. **Drafting and Workshopping of New Operations Manual:** A Draft Operations Manual for Beehive was prepared in November 2004, in order to ensure that the A-card product is thoroughly integrated into day-to-day lending operations. The manual explains in detail the lending process and procedures of the organization. It also comprises process flow charts, tables and a number of useful tools including a Community Assessment Checklist, RFA Selection Checklist and an Affordability Sheet.

The draft was work-shopped with management and agreement and understanding was achieved about revising Beehive's lending practices and procedures. This manual was finalised in early 2005, and has been adopted for use.

5. World Education also facilitated a **Change Management Workshop** with management, to address institutional issues that impacted on the roll out of the A-Card project. The aim was to agree on suitable interventions that would transform Beehive EDC into a more efficient, sustainable and effective entity, and re-engineer management's approach to problem solving.

6. **An Operations Training Manual** was developed in early 2005, which covers history and background of BEDC, and goes into detail on:

- The Unit Bank Loan Product
- Programme Rules & Group Formation
- The Loan Process & Timing
- Forms And Documents required for managing and monitoring the loan portfolio

7. **A two-day Operations Training Workshop** was held in February 2005 for 60 staff – including 9 Regional Loan Officers, 45 Resident Field Agents and one board member.

Participants were familiarized with the revised lending methodology, policies, procedures and tools. The learning objectives were clearly elucidated. Participants were required to work through a number of practical exercises that helped them understand the content better.

The workshop instilled positive sentiment in among participants, increasing their determination to make Unit Bank Lending work. The importance of the A-Card was stressed and participants realized that the A-Card would in future make their lives much easier. Commented one participant of the workshop: " It gave me a sword to fight in the field'.

8. **Finalization of Operations Manuals:** Both the Operations Manuals and the Operations Training Manuals were then refined further based on discussions over the two day workshop. The refined manuals were then placed on the LAN (Local Area Network).

**9. Performance Agreements:** The day after the Operations Workshop the 9 RLOs were asked to sign a performance agreement letter requiring them to agree to consistently achieve 100% of agreed targets relating to:

- disbursement of new loans.
- collection of the old portfolio.
- repayment rate.
- Portfolio at Risk.

**9.** As part of the **marketing effort** more than 70 private sector businesses in the Lydenburg area were also approached. It appears that larger banks have already tied up the market, offering employers a package of services which Teba Bank cannot offer. Also Lydenburg is a relatively conservative area and a few businesses stated that they were either too busy or are just not into the empowerment of HDIs.

**10. Conversion of Existing Clients to A-Card Clients:** This process began in earnest in April 2005, and RLOs were given two months to market the A-card and process applications for all their clients. The intention was to reinforce the organization's commitment to the A-Card and its vision of using the card for disbursements and repayments.

**11. Adjustments to Programme Strategy:** During April and May, revised targets were negotiated with MegaTech, due to the time constraints on testing the Teba Bank POS devices with merchants. Instead of the milestone on POS devices, production of a comprehensive research document on POS and other methodologies was substituted.

11.1 Research study: This study reviews current trends in electronic banking internationally, compares different elements that make up the major South African offerings, and reflects on IRF efforts to use electronic banking as a vehicle for increasing financial services to the poor.

A draft of this document was ready by August end, but it requires some further editing. The aim is to get this document published in an appropriate journal, and also present some of the learning to an appropriate audience.

**12. Way Forward Strategic Planning Workshop:** A strategic planning workshop was held for Beehive management on 1 June 2005. In attendance were Wessel Venter (CEO), Michael Ngoncwane (MD), Nelly Puane (Operations Manager), Charmaine Oelofse (Administration & IT Manager), Org du Toit (Board Member), Lillian Segoane (Board Member). The theme of the workshop was as to get participants to:

- reflect on the current situation,
- identify problem areas,
- think out of the box by brainstorming

Can BEDC survive by just focusing on enterprise loans? It was argued by some of the participants that we need to harness the strengths of BEDC & link these to opportunities not to operations. They argued that there was a need to adopt a multi product approach. While others argued that Beehive needs to get the building blocks right first.

**13. Independent A-Card Evaluation & Findings:** In July, Teba Bank commissioned a more comprehensive and individual A-Card Customer Satisfaction Survey, carried out by Evolve, and independent research firm. 60 clients were interviewed in depth.

Findings include:

- 87% rated the A-card as an “outstanding” product, with satisfaction levels stated as being “excellent” in most cases
- 90% of respondents stated that the charges on the card are lower than those of other banks and that the card saves them time and money
- The “excellent introduction” the majority received from Beehive representatives when opening the account has led to the attainment of the right information relating to the card.
- Accessibility of banking facilities – either via Teba Bank branches/ATM’s or other banks’ Saswitch machines seem acceptable (1-5km)

In my capacity as the grantee agent, I hereby certify that to the best of my knowledge, the above information is accurate.

Authorised Signature: \_\_\_\_\_

Date: \_\_\_\_\_



WORLD EDUCATION

# **The Electronic Banking Revolution**

**Utilizing Debit Card & Mobile POS Technology as a Means for  
Increasing Financial Services to the Mass Market in South Africa**

**November 2005**

Authors: Sanjeev Singh and Armin Sethna  
World Education, South Africa

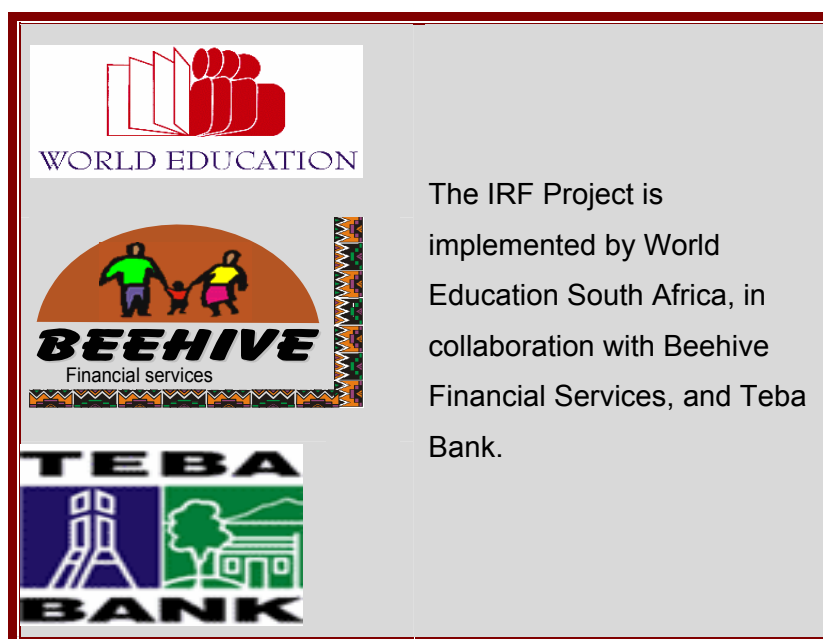
## ACKNOWLEDGEMENTS

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## TABLE OF CONTENTS

<u>CHAPTER</u>	<u>TITLE</u>	<u>PAGE</u>
<b>1.</b>	<b>Introduction</b> 1.1 Executive Summary 1.2 Objectives & Methodology	<b>1</b>
<b>2.</b>	<b>The South African Banking Landscape</b> 2.1 Introduction 2.2 Challenges Facing The Financial Sector 2.3 The Financial Sector Charter	<b>5</b>
<b>3.</b>	<b>Mass Market Electronic Banking - The International Context</b> 3.1 Introduction 3.2 Current Trends in Electronic Banking 3.3 Recent Electronic Banking Initiatives 3.4 New Developments	<b>9</b>
<b>4.</b>	<b>Debit Cards &amp; Point Of Sale Systems Explained</b> 4.1 What Is A Debit Card? 4.2 The Benefits Of Accepting Card Payments for Businesses 4.3 What is a Point of Sale (POS) System?	<b>15</b>
<b>5.</b>	<b>The Innovations In Rural Finance Programme (IRF)</b> 5.1 Introduction 5.2 The Teba Bank A-Card 5.3 Profile of the Collaborating Partners 5.4 Customer Satisfaction Survey August 2005	<b>18</b>
<b>6.</b>	<b>Bank Point of Sale (POS) Comparative Matrix</b> 6.1 Introduction 6.2 Bank Point of Sale (POS) Comparative Matrix	<b>30</b>
<b>7.</b>	<b>Reflections</b>	<b>37</b>
	<b>Bibliography</b>	<b>41</b>
	<b>Annexures</b> Annexure A: The Proposed Teba Bank POS Business/Franchise Model Annexure B: Customer Satisfaction Survey August 2005 Annexure C: The Role of World Education In the IRF Programme	

## List of Acronyms

<b>ATM</b>	Automated Teller Machine
<b>BEDC</b>	Beehive Enterprise Development Centre
<b>BFS</b>	Beehive Financial Services
<b>FSC</b>	Financial Services Charter
<b>GSM</b>	Global Systems For Mobile Communication
<b>HDI</b>	Historically Disadvantaged Individuals
<b>IT</b>	Information Technology
<b>MFI</b>	Micro Finance Institution
<b>POS</b>	Point of Sale
<b>IRF</b>	Innovations In Rural Finance Programme
<b>PIN</b>	Personal Identification Number
<b>SMME</b>	Small, Medium & Micro Enterprise
<b>USAID</b>	United States Agency For International Development
<b>WE</b>	World Education Inc.



# Chapter 1

## Introduction

### 1.1 Executive Summary

**H**istorically the mass market or poor have been excluded from the provision of financial services by the financial sector, which is geared to service those with capital and assets. Cost considerations, inadequate technology, poor infrastructure and volume of business have been some of the reasons given by the financial sector for its unwillingness or inability to provide financial services to the poor. In South Africa this exclusion was also justified by the failed ideology of apartheid and racial discrimination. The 2003 Finscope Study into the Financial Needs and Behaviour of the SA Population 2003 estimates the unbanked population at 9,749 769 million or 35% of the population.

Electronic Banking which includes debit cards, smart cards, credit cards, point of sale systems (POS), ATMs etc has undoubtedly revolutionized banking and the way financial services are being provided. In addition new Internet based financial software programmes and improvements in information technology have lowered the costs of banking transactions.

This study examines in greater detail how advances in technology, particularly debit card and mobile point of sale technology can be implemented in South Africa to increase financial services to the poor. Do these advances in technology imply that the lower income market segment is no longer as unbankable as in the past? Banks are only now entering this market which was previously the domain of NGO micro finance institutions and savings & credit cooperatives.

In **Chapter 2**, The South African Banking Landscape we outline recent developments in the banking sector in South Africa, enumerate the challenges facing the broader financial sector and also unpack the Financial Sector Charter. Banking institutions are only now beginning to recognize the potential of the unbanked population as a huge and viable market for them to service. The banking sector despite some transformation is still characterized by: the presence of a few very large institutions; low levels of black participation, in meaningful ownership, control, management and high-level skilled positions in the sector; and an inadequate response by the sector to the increasing demand for access to financial services by the poor.

The Mzansi account is an initiative aimed at closing the gap between the banked and

unbanked in South Africa while the Financial Sector Charter is intended to make the financial sector more representative of the demographics of South Africa.

**Chapter 3** examines Electronic Banking in the international context. We study current trends and developments that may assist in providing cost effective and efficient financial services to the mass market here in South Africa. Can these new developments in electronic banking help to increase the provision of financial services to the poor? Chip technology is revolutionizing the way we pay, with safer, faster transactions and a choice of services on a single smart card. Cell phone banking, biometrics and mobile point of sale devices are also discussed. Is it possible to use technology to dramatically decrease operational costs, improve the quality of financial information and make banking to the poor more affordable?

**Chapter 4** defines in more detail a point of sale system (POS) which can include credit/debit card processors, cash drawers, receipt printers, magnetic stripe readers, pole displays, bar code scanners and signature capture pads, all integrated with a computer-based system. We learn that a debit card is a payment card that is linked directly to a customer's bank account (savings or current account). Some cards require a personal identification number (PIN) while others require a customer's signature. A debit card removes a purchase price from a customer's account almost immediately. The card can be used at ATMs or point of sale machines. A debit card is not a credit card.

World Education's Innovations in Rural Finance (IRF) Programme, which employs Teba Bank's A-Card Debit Card System, is the topic of **Chapter 5**. The IRF Programme is a unique initiative to provide and widen cost-effective access to a range of financial services among rural SMMEs and residents in the Mpumalanga province of South Africa.<sup>1</sup> The aim of the IRF programme is to use existing debit card technology and more recently developed GSM enabled POS systems to draw rural SMMEs and HDIs into the market economy.

The Bank POS Comparative Matrix outlined in Chapter 6 was developed after consultations and interviews with Teba Bank, as well as the South African 'Big Four' (ABSA, Standard Bank, First National Bank and Nedbank), which have the largest market share in terms of point of sale distribution in South Africa.

The Matrix compares the major banks point of sale systems in terms of requirements for acquiring an account; accessibility; technology; costs; and benefits.

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<sup>1</sup> Sethna Armin, (2004) *IRP Proposal*, World Education Ntinga

Finally **Chapter 7** reflects on our efforts to use electronic banking as a vehicle for increasing financial services to the poor. We also try to assess the building blocks needed to develop a successful electronic banking initiative.

## 1.2 Objectives & Methodology

his research and reflection study was undertaken with the following objectives in mind:

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- To explore the potential of debit card & mobile POS technologies as a means for increasing financial services to the mass market or poor in South Africa and to review current trends and developments in electronic banking internationally;
- To survey the South African banking landscape and understand the challenges facing this sector;
- To compare and contrast the different elements that make up the major South African banks' POS package of services & costs to the merchant;
- To examine in greater detail how new developments in electronic banking could help to increase the provision of financial services to the poor; and
- To reflect on World Education's efforts to use electronic banking as a vehicle for increasing financial services to the poor.

This study uses secondary data obtained from various sources (see Bibliography), with some empirical data being provided by the IRF programme itself. It is intended that this study will contribute to the existing body of knowledge on using technology to increase the provision of financial services to the poor.

Research for this study was conducted by:

- A review of current published & unpublished research works and articles on the subject.
- Discussions and meetings with individual bank's Merchant Services Divisions in order to gather data and information about their point of sale (POS) systems, costs, documentation and other requirements.

- Utilizing the Internet as an effective search tool by reviewing and analysing a range of websites (amongst a host of others) for information relevant to this study.<sup>2</sup>
- ABSA ; Standard Bank; Nedbank; First National Bank (FNB); Teba Bank; Capitec Bank; Banking Association of South Africa (formerly the South African Banking Council); Bank SETA; Finmark Trust; The South African Reserve Bank; CGAP-Micro-Finance Gateway; Microsave
- Using World Education's Innovations In Rural Finance Programme as a case study for empirical data.

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<sup>2</sup> . ABSA ; Standard Bank; Nedbank; First National Bank (FNB); Teba Bank; Capitec Bank; Banking Association of South Africa (formerly the South African Banking Council); Bank SETA; Finmark Trust; The South African Reserve Bank; CGAP-Micro-Finance Gateway; Microsave

## Chapter 2

# The South African Banking Landscape

### 2.1 Introduction

In South Africa, in particular, the banking products and distribution channels of most established financial institutions have been found to be appropriate to the needs and socio-economic profile of only the minority of more affluent, educated, and sophisticated people.

The 2003 Finscope Study into the Financial Needs and Behaviour of the SA Population 2003 estimates the unbanked population at 9,749 769 million or 35% of the population. However Moore, 2000, p. 124 estimates South Africa's unbanked population at between 11 million to 17 million people.

South Africa has a relatively sophisticated banking sector. The dearth of banking opportunities for lower income people arises, in large part, from difficulties on the supply side, where banks traditionally have not been able to profitably serve the poor

During the 1980s, but particularly after the implementation of the De Kock Commission recommendations in 1985, South African banks were faced with the increasing adherence to free market principles by the monetary authorities. Deregulation, consolidation and rationalisation took place on a major scale. Most of the direct control instruments were no longer used by the end of the 1980s. By the early 1990s nearly all building societies were transformed from mutual societies into banking institutions and in turn merged into larger banking groups.<sup>3</sup>

"By the mid 1990s more than 95% of the total assets of banks were held by only four banking groups with more than 3000 branches country-wide (viz. ABSA Bank, Standard Bank, First National Bank and Nedbank). The remaining 5% of banks' assets are spread among some 27 local banks, 9 foreign controlled banks, and a few branches of foreign banks as well as some mutual banks. The nearly 60 representative offices of foreign banks concentrate virtually exclusively on foreign banking activities in South Africa.

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<sup>3</sup> Falkena, H.B. *et al.* The South African Financial System, Halfway House: Southern Books, 1995

“The degree of evolution within the financial marketplace affects the nature and type of intervention possible. A key strategy used by Commercial Banks in Africa has been to extend their electronic banking user base through the introduction of Automated Teller Machines (ATMs). Central African Building Society based in Harare built a card base of over 800,000 users. In South Africa, Standard Bank introduced an ATM based account, the E-Plan to more than 3 million customers. The transition that has occurred in Southern Africa is extending to East Africa. There has also been a rapid growth of ATMs in Uganda. Kenya is also reaching a take off point with the rapid introduction of ATM sites, with two companies providing bank-switching services.”

## 2.2 Challenges Facing the Financial Sector<sup>4</sup>

The South African financial sector is generally recognized as world class in terms of its skilled workforce, adequate capital resources, infrastructure and technology, as well as a conducive operating, regulatory and supervisory environment. However, the financial sector is confronted by a number of challenges which include the fact that:

- it is characterized by the presence of a few very large institutions. Many of the smaller and foreign institutions have exited the market in recent years ;there are low levels of black participation, especially of black women, in meaningful ownership, control, management and high-level skilled positions in the sector;
- there has been an inadequate response by the sector to the increasing demand for access to financial services;
- the sector has not effectively provided credit to entrepreneurs, particularly black businesses;
- the national level of savings and investment is inadequate to support sustained economic growth and individual financial security;
- there is insufficient investment of the savings pool under the control of the sector into targeted investments of national priority;

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<sup>4</sup> Falkena, H.B. *et al. The South African Financial System*, Half-way House: Southern Book, 1995, pp 71-75.

- a large pool of funds circulates outside the formal financial system, including but not limited to funds held by stokvels, informal traders and in other forms of short-term savings;
- there has been limited support for new black firms in the financial sector by the private sector.

Almost 30% of adult South Africans are unbanked. It is only in the last 10 years that banks have begun to make an effort to serve the entry level market.

## 2.3 The Financial Sector Charter<sup>5</sup>

At the 2002 summit of NEDLAC (the National Economic Development and Labour Council), held amid a climate of dissatisfaction with the slow pace of economic transformation in the country, South Africa's banking sector committed itself to voluntarily developing a "charter" that would address the imperatives of broad-based Black Economic Empowerment (BEE).

The Charter, commits financial institutions to actively promote a transformed, vibrant, and globally competitive financial sector that reflects the demographics of South Africa, and contributes to the establishment of an equitable society by effectively providing accessible financial services to black people and by directing investment into targeted sectors of the economy.

Following the publication of the Financial Sector Charter on 17 October 2004 (which outlines targets for a 10-year period up to 2014), some progress has been made. The banking sector has committed itself to providing banking services within 20 kms of 80% of people in the LSM 1-5<sup>6</sup> category, by December 2008. They have resolved to improve that requirement, and the banks will provide an ATM service within 10 Kms and a full banking service within 15 kms of 80% of people in the LSM 1-5 category.

Banks then proceeded to launch a National Bank Account late in October 2004

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<sup>5</sup> Media Release: *The Financial Sector Charter Core Group*, 15 March 2004

<sup>6</sup> . LSM = Living Standards Measure. LSM1 – poorest; LSM10 – wealthiest. This measure was developed by the All Media and Products Survey (AMPS), to designate various socioeconomic groupings. LSM1 through LSM5 are considered by international standards to be poor, living on less than US\$2 per day.

called the Mzansi account. Initial participants were ABSA, FNB, Nedbank Ltd, PostBank, Standard Bank and later Capitec Bank. The Mzansi Account is based on a minimum standard of functionality and interoperability. There were approximately one million Mzansi account holders as at May 2005.

Following the publication of the Financial Sector Charter on 17 October 2004, significant progress has been made in implementing the Charter. The Constitution of the Charter Council, which is to monitor implementation of the Charter by the financial institutions, is very close to final settlement, and it is likely that the Board will be appointed, and the offices of the Charter Council established by the end of April 2005. The Board will have equal representation from the financial sector trade associations and the other stakeholders (including Government and ABSIP, the Association of Black Securities and Investment Professionals).

Nine Joint Task Groups have been established to address the various aspects of implementation, including the provision of transaction services and finance for low-income housing, black SMEs (small and medium enterprises), transformational infrastructure and agriculture. In other areas, the institutions have already begun to address the commitments contained in the charter. That is clearly evident from the announcement of a number of new equity empowerment transactions between financial institutions and black companies. The institutions have also made progress in addressing employment equity and in the implementation of targeted procurement policies and practices.



## **Chapter 3**

# **Mass Market Electronic Banking**

## **The International Context**

### **3.1 Introduction**

**A**ccording to Moore (2000), (p2) international experience suggests that small account balances and a low volume of transactions, among other considerations, result in high administrative costs for these accounts, especially in over-the-counter banking environments, with the consequence that people with incomes below certain thresholds may be denied bank accounts. Is it then possible to deliver financial services to the poor by ensuring that we have good quality information and without incurring high costs?

This chapter: outlines selected current international electronic banking initiatives; reviews current trends and developments and finally looks at exciting new developments in electronic banking.

### **3.2 Current Trends in Electronic Banking**

**I**t appears that the emergence of ATMs, debit cards, smart cards, mobile point of sale devices and rapid improvements in information technology are moving the financial sector towards the provision of mass market banking services.

In their relentless drive to cut costs the banks are reducing the number of over the counter transactions while focusing more on ATMs, Internet banking, telephone/cell phone banking, debit cards, the development of new electronic technology & point of sale systems. Some players in the banking industry are beginning to realize the income-generating potential of this technology. Such innovations in technology have undoubtedly lowered the cost of providing banking services but it is yet to be conclusively demonstrated that this can be translated into the broadening of financial services to include the poor.

Chip technology now is revolutionizing the way we pay, with safer, faster transactions and a choice of services on a single smart card. It could not have happened without a global effort to set standards for interoperability, drive down costs and create business cases.

Recently there has been an increase in the provision of debit cards particularly to the lower

income group. (Also refer to Chapter 4). A debit card is not a credit card and can be given to a customer almost instantly. Debit cards are linked to a customer's bank account and allow purchases to be made with currently available funds that are instantly deducted from the account. Banks view this feature as having advantages for them especially when dealing with low income customers who are invariably perceived as being high risk. Debit cards therefore entail less risk for banks and also reduce their costs.

Banks are increasingly trying to harness new technology in order to reduce costs and improve efficiency. Greater reliance is being placed on sophisticated ATMs where customers can conduct virtually all kinds of banking transactions thereby obviating the need for a physical bank branch. These advances in technology allow banks to serve a market which was once deemed unprofitable.

### 3.3 Recent Electronic Banking Initiatives

The following are some electronic banking initiatives aimed at the poor that are operational in Africa:<sup>7</sup>

#### 3.3.1 Africa

- **Teba Bank** - South Africa: Debit card with enhanced functionality. Teba Bank has developed a multipurpose banking card tailored to meet the needs of its target market. The card is aimed primarily at rural and small town communities and offers a simple method of providing bank accounts to a market that has previously been marginalized. This card is currently being piloted with Teba Bank staff and selected partners. (see Chapter 5, The Innovations in Rural Finance Programme (IRF).
- **SafeSave** - Bangladesh: Palm Pilots. SafeSave is experimenting with Palm Pilot handhelds for field-level transaction entry. The handhelds are hot-synced to the branch office database (MS Access) by USB connection, which takes no more than a few seconds. Fieldworkers with a primary level education are proving quite capable of operating the handhelds in the field.
- **ValueCard** Nigeria - Smart card (e-Wallet) initiative providing both merchant and ATM cash dispenser services. This project now has some 375,000 cards in issue with 16 participating financial institutions.

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<sup>7</sup> . These initiatives were listed in the 2001 MFN publication on "Automating Microfinance" and mentioned in MicroSave's 2004 Virtual Conference on Electronic Banking for the Poor.

- **Malswitch** in Malawi: the Central bank established a smart card infrastructure with a few biometric enabled ATMs. Most of the small to medium sized financial institutions are using Malswitch. Targeted to middle and low income Malawians. Currently rolling out slowly.
- **PRIDE AFRICA** is developing a credit card system in Kenya. The aim is to create a model for providing farm input credit and marketing services to small holder farmers. The concept intends developing the system to link up with a participating financial institution. (Equity Building Society) The organization is also working with Hewlett Packard in Uganda on a Remote Transaction System.

### 3.3.2 Other areas

Interested readers can also look up the following initiatives, which indicate a clear trend across the developing world:

#### Asia

- ICICI – India: design of a low cost cash dispenser.
- BASIX in India.
- MEPS in Malaysia.
- SKS - India: Smart card largely replicating existing operations.

#### Central & South America

- Banco Ademi - Dominican Republic: Debit Card.
- Financiera Trisan - Costa Rica: Debit card with payments to certain vendors.
- PRODEM - Bolivia: Low cost ATM with additional functionalities. Prodem uses a combination biometric fingerprint and smart cards for security, ease of use, and cost.
- Compartamos - Mexico: Palm pilots.

#### Eastern Europe

- VELCOM provides SMS banking services for holders of Belarusbank plastic cards MAESTRO/ CIRRUS and VISA/ELECTRON.

## 3.4 New Developments

Improvements in technology are changing the face of banking and the way in which financial institutions deliver financial services to their customers. The next frontier includes cell phone banking, biometrics and smart cards. The challenge lies in utilizing this new technology to broaden financial services to the mass market.

### 3.4.1 Cell Phone Banking

With the growing number of people using cell phones as a means of communication it was only a matter of time before the cell phone's primary function was broadened to include:

- transfer of funds electronically (EFTS),
- account enquiries,
- other non cash financial transactions,

Cell phones therefore offer customers the flexibility to conduct certain financial transactions without having to visit a bank branch or ATM. This has obvious benefits for customers in rural areas and saves them costly travel and time. Institutions also benefit because they lower their operating costs by not having to establish a physical bank branch or ATM. A disadvantage for rural customers is that withdrawals & deposits of cash will still have to be conducted either at a branch, ATM or kiosk.

#### South Africa

Standard Bank, Africa's biggest bank by assets has teamed up with MTN to introduce cell phone banking to more than 20 million subscribers. There would be no monthly service fees and no minimum balances. All banking transactions would be free and free notifications would be sent to update clients on changes in balances the companies said.

*Reuters; 11 August 2005*

South Africa has one of the highest cell phone usage rates in the world. Overwhelmingly South Africans of all races use cell phones to communicate therefore making cell phones an ideal tool for broadening financial services to the mass market. This model would have to entail a partnership between a financial institution and a cell phone company.

Retailers such as fast food restaurants, convenience stores, department stores, cinemas and the national airline are taking part. They believe the initiative will improve customer

service and strengthen loyalty, while SK Telecom expects to improve customer retention. More than 220,000 terminals have already been upgraded and 80,000 phones are in use – figures that are expected to rise to around 400,000 terminals and at least 2 million phones by the end of the year.

### 3.4.2 Biometrics

Biometrics is still very new and appears quite futuristic; however the technology does offer benefits particularly to rural & illiterate customers. For both financial institutions and customers biometrics may offer lower costs, convenience and more security than passwords and personal identification numbers. It certainly has the potential to make mass market banking a success providing costs can be managed.

The technology evaluates an individual's unique physical or behavioural characteristics in order to recognize and confirm or deny identity. Such characteristics can include an individual's fingerprints, face, voice, and way of walking.

### 3.4.3 Smart Cards

In the early 1990s, it became clear that the technologies available to criminals were, over time, liable to make magnetic stripe payment cards vulnerable. The consequences could have destroyed public confidence in a convenient, flexible way to pay that has helped to bring the benefits of retail banking into many new sectors and territories.

So Visa examined options that would offer greater protection against fraud. It rapidly became clear that the microchip was the best option in the light of experience in France, where proprietary chip technology had almost eliminated counterfeiting.

Smart cards are in effect plastic cards containing a small microchip. A cell phone SIM card is one example of a smart card. Financial institutions in the West have accelerated the roll out of smart card technology as they offer a much more secure payments system than MAG strip cards and are therefore less vulnerable to fraud.

According to the findings contained in the Smart Card Trends and Deployment in SA 2004 report, released by World Wide Worx and Razor's Edge Business Intelligence,

#### **The United Kingdom**

The UK is leading the world into the EMV age, with more than half of the country's Visa cards carrying an EMV chip. Its business case is based firmly on fraud control – and its strategy is working. National losses on all counterfeit cards fell from \$231 million in 2001 to \$214 million in 2002 and the country's Association of Payment Clearing Services believes that criminals are actively avoiding chip cards and terminals. A Visa study underlines the trend, showing that, even before the infrastructure upgrade was complete, domestic counterfeit fraud among issuers who had upgraded most of their cards to EMV chip was 43 per cent lower than among similar banks who still issued magnetic stripe cards.

the smart card industry 'is poised for an unprecedented explosion in South Africa.' 'The single biggest smart card project in this country will be the new Home Affairs National Identification System, known as Hanis, which will require the replacement of identity documents with around 30-million smart cards -one for every eligible South African.'

#### **Mexico**

In 1999, Mexican banks assessed the business case for chip technology in the hope of reducing fraud – and found it didn't add up. Today, the business argument has been transformed and the country's infrastructure is upgrading fast. Around 20 per cent of Mexican terminals are EMV chip-capable and issuers and acquirers have joined forces to run a pilot that is scheduled to lead to a full roll-out, starting early in 2004. Within three years, the country expects to have completed its migration. Developments that prompted this include: the plummeting cost of the chip infrastructure; the establishment of local chip technology vendors; preferential fees for international chip transactions.

Due to the increasing levels of card fraud in South Africa it is likely that in the future all new credit and debit cards issued will have to be smart cards. Chips also provide an opportunity to offer other services alongside payment.

The cost of upgrading not only cards but also the systems and acceptance infrastructure is a major issue when considering migration to chip.

### **3.4.4 GSM Enabled POS Devices**

Teba Bank in South Africa is pioneering the launch of a mobile point of sale system. Unlike ordinary POS devices this device does not rely on radio waves and is therefore fully portable. The device uses GSM technology to communicate with the bank via an embedded cell phone SIM card. The POS device can therefore be operated in the rural areas, making it very useful for the purposes of a mass market strategy electronic banking strategy. Customers will be able to conduct a number of non financial transactions at these point of sale devices including getting cash back from the retailer. It is envisaged that these POS devices will be located at selected retail stores close to the community that Teba Bank serves.

## Chapter 4

# Debit Cards & Point of Sale Systems Explained

### 4.1 What Is A Debit Card?

**I**t is a payment card that is linked directly to a customer's bank account (savings or current account). Some cards require a personal identification number (PIN) while others may require a customer's signature.

A debit card removes a purchase price from a customer's checking account almost immediately. The card can be used at ATMs or point of sale machines. A debit card is not a credit card. A debit card transaction pays the seller of goods or services by withdrawing funds already on deposit in the buyer's account, as opposed to a credit card transaction in which funds are loaned to the buyer by the card issuer.

A debit card can therefore be considered as a cash substitute for consumers. Debit cards issued with a Visa or MasterCard logo are accepted by any merchant that also accepts Visa or MasterCard credit cards.

### 4.2 The Benefits of Accepting Card Payments for Businesses

**B**y accepting card payments a business will benefit by:

- Offering consumers an easy and convenient way to pay for goods and services.
- Receiving prompt and assured payment.(subject to certain conditions)
- Reduced back office administration.
- Reduced levels of cash on premises. (Less risk)
- Quick conclusion of payment - ensures shorter queues and subsequently happy customers.
- Less frequent visits to the bank for cash deposits
- Saving on cash deposit fees.

Credit and Debit cards are also known to generate additional sales by providing customers with the freedom to:

- Buy on impulse.
- Purchase more than what they initially budgeted to spend.
- Effect additional purchases.
- Have access to quick pre-approved instalment finance in the form of a budget transaction. (Where else can anybody get finance approved in less than 20 seconds?)

### 4.3 What Is A Point Of Sale (POS) System?

The following four banks already offer a viable point of sale (POS) system to merchants or retailers:

- ABSA
- Standard Bank
- Nedbank
- First National Bank (FNB)

These are the so called large banks and they dominate the South African banking landscape. Between them these banks have the largest market share and their influence and outreach is countrywide and even across our borders. Teba Bank, Capitec Bank, Mercantile Bank, Bank of Athens/SureBank are so called 'intermediate banks' because they are smaller in size with a limited branch infrastructure and client base. These banks are also in the process of developing and piloting debit cards and point of sale systems.

Most South African banks usually provide the following Merchant Services:

- Enable a business to accept credit, debit and other cards.(Fleet / Garage)
- Provide the necessary card acceptance equipment.
- Cheque verification

The following definitions are intended to provide some explanation of the different components of a point of sale system.<sup>8</sup>

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<sup>8</sup> xListings Network Technology: [www.xListings.net](http://www.xListings.net)



The **Point of Sale** is a location where credit or debit card transactions are performed with the cardholder present, such as a retail store. The card is read magnetically, and the cardholder's signature is obtained as insurance against the transaction. This is the most secure form of credit or debit card commerce.

A **Point of Sale System** can include credit/debit card processors, cash drawers, receipt printers, magnetic stripe readers, pole displays, bar code scanners and signature capture pads, all integrated with a computer-based system. *Point of Sale Software* is used to manage and control all of these components, and to organize product, customer and sale information.

**Point of Sale Software** is software to operate a flexible and automated retail management system. In addition to integrating all the components of a Point of Sale system with a central computer terminal, Point of Sale software typically offers sophisticated organization capabilities. It provides for detailed financial reporting, enables inventory tracking in real-time, allows capture of all customer information for improved service, offers integrated credit/debit card processing, which means you don't have to re-key accounting or credit/debit card information, and permits flexible product pricing configuration with checks to prevent staff from selling at lower than designated rates.

**Merchant Accounts.** A merchant account is a bank account established by a merchant to receive the proceeds of credit/debit card purchases. By establishing a merchant account, the merchant bank agrees to pay the merchant for valid credit/debit card purchases in exchange for the right to collect on the debt owed by the consumer.

**Transaction Rates.** Each time a purchase is made, there is a cost to the retailer. In South Africa rates for transactions are generally in the 2 to 7 % range depending on the volume of card transactions.

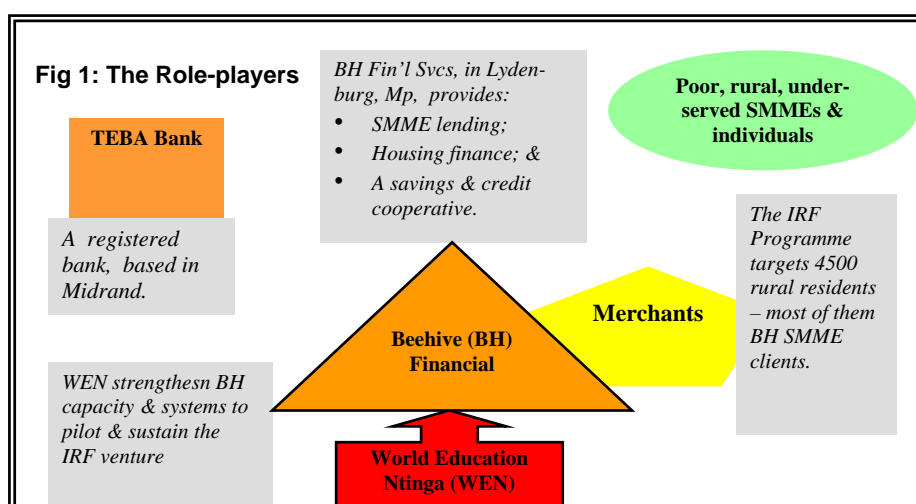
Finally in order for an electronic banking initiative to function seamlessly banks need **switching agents**. BANKSERV is owned by four major South African banks—ABSA, First National Bank, Nedcor and Standard Bank. BANKSERV operates the Saswitch and SACCAS networks (the South African ATM and POS transaction switches) and the Automated Clearing Bureau (ACB) which provides funds clearing services for debit and credit transactions. BANKSERV has a Saswitch network of 6,300 ATMs and the SACCAS network of 50,000 POS devices. BANKSERV currently processes over 15 million POS and ATM transactions every month.

## Chapter 5

### The Innovations in Rural Finance (IRF) Programme

#### 5.1 Introduction

The Innovations in Rural Finance (IRF) Programme was a joint collaboration between World Education, USAID, Teba Bank and the Beehive Financial Services. In terms of this initiative all parties agreed to pilot the A-Card a unique debit card system aimed primarily at the lower income, rural population for a period of 15 months. Technical assistance for the project was being provided by World Education's NTINGA team, and funded by the United States Agency for International Development (USAID).



The goal of the pilot, which began operations in July 2004, was to provide and widen cost-effective access to a range of financial services among rural SMMEs and residents in the Mpumalanga province of South Africa.<sup>9</sup> This was to be demonstrated by using existing debit card technology (the A-Card) and more recently developed cell phone enabled POS systems to draw rural SMMEs and HDIs into the market economy.

By linking up with a “mainstream” formal sector banking institution namely Teba Bank – the IRF programme sought to bridge the gap between South Africa’s advanced financial and market systems and the majority of SMMEs and historically disadvantaged individuals (HDIs) who have little access to the cost- and time-saving mechanisms customary to normal business.

<sup>9</sup> Sethna Armin, (2004) *IRF Proposal*, World Education Ntinga

### OBJECTIVES OF THE IRF PROGRAMME

- To provide and widen cost-effective access to a range of financial services among rural SMMEs & residents.
- To use existing debit card technology & GSM-enabled POS systems to draw rural SMMEs & HDIs into the financial sector.
- To demonstrate how to bridge the gap between South Africa's advanced financial and market systems and the vast majority of SMMEs & historically disadvantaged individuals.
- To pilot and refine mechanisms & systems for doing so.
- To upgrade Beehive's lending and repayment procedures

The programme sought to roll out A-Card access to 4,000 clients, the majority of them being SMMEs, and women, in target areas of Mpumalanga Province. These areas were chosen on the basis of Beehive's client base, poverty profile, and findings of a rapid market survey.

From Teba Bank's point of view, in addition to supporting its social objectives, there was a recognition that the IRF programme would expand its profile and market share for savings and debit-card products, as well as new

accounts, in a new geographic area, without incurring the significant costs associated with establishing branches and outlets. In effect, Beehive would act as a Teba agent in terms of issuing A-cards to clients, who will open bank accounts with Teba Bank.

The programme originally intended to broaden access to financial services via a network of 22 locally-based merchants. These merchants were to provide clients with access to POS devices where they could "swipe" their cards to connect with savings accounts created at TEBA Bank. The merchants were to earn revenues from selling "airtime" for accessing the machines as well as commissions on each A-Card transaction via TEBA Bank. While the IRF programme was being implemented, however, Teba Bank experienced serious problems with technology and back-up systems which greatly delayed, and eventually short-circuited, this aspect of the programme.

## 5.2 The Teba Bank A-Card

The Teba Bank A-Card was launched during early 2004. The card is primarily targeted at rural and small town communities and offers a simple method of providing bank accounts to a market that has previously been marginalized. This card is currently being piloted with Teba Bank staff and selected partners, one of these being Beehive Financial Services.

The A-Card approaches the market from three perspectives<sup>10</sup>

- It allows approved Agents (e.g. government, associations and employers) to issue their constituencies with bank accounts and electronically disburse funds to them.
- It allows retailers and other merchants access to an affordable point of sale device so that they can service their communities via the electronic payments stream.
- It allows consumers to open a bank account without going into a branch, being formally employed, or following a lengthy application using the latest technology to ensure cost efficiency. The card is affordable for customers to use and they are able to use it at ATMs, within their local communities and other debit card merchants. Customers can pay money onto their cards at Easypay outlets and the South African Post Office.

This product is supported by an educational approach to marketing to assist consumers to understand and the card. The card system has its own wireless POS and is therefore not reliant on landlines. The A-Card can be issued from an A-Card Point of Sale (POS) terminal at approved issuing agents (merchants). A Safety Card provided to consumers secures the card; this card can be used to get a replacement card should the A-Card be lost or stolen.

*Kindly refer to Annexure A for more information on the Teba Bank POS Business/Franchise Model*

## 5.3 Profile of the Collaborating Partners

### World Education Ntinga

**W**orld Education Ntinga (WEN) has been engaged in small business and financial services support activities in South Africa for a decade. Its successful USAID-funded SMME capacity-building programmes have worked in partnership with more than 25 South African micro-finance and business development institutions. Currently, WEN is facilitating a Business Linkages program for SMMEs in the construction and mining sectors. WEN is registered locally as a South African NGO and is a subsidiary of World Education International with over 30 offices around the world

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<sup>10</sup> Teba Bank Ltd [www.tebabank.co.za](http://www.tebabank.co.za)

## **The Beehive Group**

**B**eehive is based in Lydenburg, South Africa and consists of four main entities.

**Beehive Enterprise Development Centre (BEDC)** provides small business support and financial services to SMMEs (small, medium and micro entrepreneurs) in the Mpumalanga and Limpopo province. BEDC was established in 1992 in response to growing unemployment in the region. It was registered as a Section 21 Company in 1995; accredited as a Local Business Service Centre LBSC in the same year, and also became one of the first Retail Finance Institutions supported by Khula Enterprise Finance.

BEDC offers the following products and services: business skills training, business support, tender training and information, enterprise loans, banking services, funeral scheme. BEDC has a network of 9 Regional Loan Officers (RLOs) and 63 Residential Field Agents (RFAs). Its operations are divided into 3 Profit Centres. Highveld, Limpopo and Lowveld.

**Beehive Financial Services** provides financial services through Indlu Finance Company and the Thaba Chweu Savings and Credit Cooperative.

- **Indlu Finance Company** is a housing finance company and assists clients with buying, extending or improving a house or property. The majority of Indlu clients are either formally employed in the public or private sector with a tiny proportion being self employed.
- **The Thaba Chweu Savings and Credit Cooperative** is a registered cooperative and helps to mobilise savings in an area where access to affordable banking services is minimal. One of the guiding principles behind the establishment of the SACCO is the careful use of savings for investment in the economic and social well being of the community.

## **Teba Bank<sup>11</sup>**

**T**eba Bank, previously Teba Savings Fund, provides financial services and has built up a strong customer base. The bank employs over 500 people, and focuses on designing

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<sup>11</sup> Teba Bank Ltd [www.tebabank.co.za](http://www.tebabank.co.za)

and offering products and services tailored to people who have not previously had access to banking services.

The bank has an extensive distribution on the gold and platinum mines and in the areas surrounding these mines. To comply with the bank's mandate of expanding beyond the mining areas, the bank has opened up 11 branches in the Eastern Cape, one of the areas that provides labour for the mining industry, as well as in parts of North West, Limpopo, and Mpumalanga Provinces. More than 50 agency offices throughout Southern Africa render services to customers on behalf of the bank.

Teba Bank offers the following products to match the banking requirements of its markets.

- Grow with Us (Book based savings account)
- Speedcash ATM Account
- A-Card Debit Card
- Home Loans
- Remuneration handling services
- Teba Cash Financial Services
- Teba Bank Secure Data Net (TSDN)
- Micro Loans
- Funeral Insurance

The primary target markets are the low-income employees and their dependants in the rural areas, the un-banked and the informally employee.

## 5.4 Programme Activity Summary

As of August 31, 2005, 4,404 A-Cards had been processed, slightly exceeding the target of 4,300 clients.

### 5.4.1 Activities

The A-Card processes and procedures had been institutionalised in the Beehive Operations Manual, and all staff were trained in the new policies and procedures.

An Incentive Scheme was designed and implemented for both BEDC and Indlu Finance Staff in September 2004. The scheme was intended to motivate staff to market the A-Card to

new & existing clients. The objectives, criteria, duration cost, and conditions of the scheme were outlined in detail to staff and management.

World Education spearheaded development and discussion of an Operations Manual, which was finalised in early 2005. This comprehensive reference guide and management tool details the lending process and procedures of the organization, and includes process flow charts, tables, as well as a Community Assessment Checklist, RFA Selection Checklist and an Affordability Sheet.

An accompanying Operations Training Manual has also been developed, after discussions with management on what the learning objectives should entail. It is divided into five training sessions with learning objectives, practical exercises and model answers. An Operations Training Workshop was held in February 2005 for all Beehive staff (over 60 people), who were familiarized with the revised A-CARD methodology, policies, procedures and tools. The learning objectives were clearly elucidated. Participants were required to work through a number of practical exercises that helped them understand the content better.

Two change management workshops were conducted with management and the board, during 2004 and 2005 to promote new thinking and approaches to problems solving. Substantial re-engineering took place, and required ongoing monitoring of operating processes and targets throughout the life of the project. World Education played a key role by liaising with management and the Regional Loan Officers (RLOs), helping enforce compliance with the new lending processes and procedures of the organization, and consolidating the existing loan portfolio.

A compliance check list was developed by the Operations Manager with some input from World Education. This kit checked compliance at various stages in the lending process. It was agreed that Unit Bank Formation and meetings should be monitored regularly to ensure that RLOs are complying with the new programme rules and group formation. The appointment of a Compliance Officer still needs to be given attention.

At a meeting with the management it was agreed that Beehive consolidate its existing loan portfolio in order to:

- improve efficiency
- reduce operational costs
- reduce wastage in terms of time and resources

It was necessary to critically analyse and then consolidate the RLO & RFA network and the geographical spread of operations. Various under-performing areas were designated 'collect and close'. This decision was then communicated to the RLOs at a separate meeting. Two under performing RLOs were shifted to the Indlu Housing Finance Company, while their existing portfolios were taken over by other RLOs.

### **5.4.2 Constraints**

Most of the constraints experienced, especially at the start of the pilot, were technology related. They include:

- Unresolved issues with Teba Bank's **Client Information File (CIF)**, which meant that **the capturing of** Beehive A-Card clients onto the Teba system greatly lagged behind the actual signing up of such clients.
- Ongoing delay with the finalization of the **POS device business model** unfortunately put an end to the plan to locate 22 of such devices with merchants in the rural areas, as it was not viable for them to have the point of sale devices at their businesses.
- Teba Bank informed Beehive that the **acquiring facility** (i.e. whereby a POS device can process transactions for cards and accounts issued by other institutions.) was approved by the Reserve Bank. However the software for the system had not been fully developed during the life of the IRF pilot, therefore the outreach was limited only to Teba Bank card holders.
- Delays in issuing actual cards occurred on several occasions, primarily due to Teba's desire to await Visa "branding" for the cards.

## **5.5 Customer Satisfaction Survey August 2005**

**T**his independent survey was commissioned by Teba Bank as a follow up to the survey undertaken by World Education in 2004. The survey was conducted by Evolve Research and the findings confirm the results of an in-house 2004 Customer Satisfaction Survey. 60 Beehive clients were interviewed as part of the Evolve activity, the majority of them in the 25-51 age group



### 5.4.1 Objectives of the Survey

The survey aimed to:

Determine

- understanding of the product
- suitability of the A-card features
- product usage
- acceptability of the marketing material

Assess

- customer's attitude towards TEBA Bank
- access to bank facilities
- impact of A-Card

Identify

- areas of improvement & development

### 5.4.2 Observations

The majority of respondents interviewed were self employed. The business initiatives that are prominent relate to selling consumer goods via kiosks (e.g. sweets, snacks, cigarettes); fruit and vegetable stalls; and clothing items such as leather jackets and fashion outfits. Some of the male respondents also mentioned that they took part in tendering services for government initiatives as part of their business objectives.

Most of the respondents indicated "effective access means" in line with the FSC which stipulates that original points for financial services should be accessible to all without discrimination in a range that is less than 20km's from place of residence/township/suburb.

Beehive customers mainly associate the A-Card with Beehive. Although some indicated knowledge that the card was from Teba Bank, queries and problems with the card are communicated to Beehive rather than Teba Bank

### 5.4.3 Summary Of The Survey Findings

#### Current Financial Facilities

- All respondents have savings accounts by virtue of being A-Card holders.
- This is followed by clothing accounts and funeral cover policies.

#### Popular Institutions For Savings Accounts

- Most savings accounts are held with Teba Bank, followed by ABSA (South Africa's largest banking group).

#### Required Financial Facilities

- A high level of requests for housing loans ("bonds" was identified.
- Banks loans are required by about a third of the respondents.

#### A-Card Usage

- The majority use their A-card for deposits and withdrawals.
- A third claim to use their card for purchases.

#### Place And Distance – Deposits and Withdrawals

- Majority deposit money into the A-Card at the post office.
- Travel distance is often acceptable for the majority as it is between 1-5km (usually the distance to the nearest town).
- Withdrawals are mostly made at other banks' ATMS (esp. ABSA)

#### Associations Of The A-Card

- Knowledge/Association of Teba Bank with A-Card is modest – around a third of the respondents are aware of the association.
- For the majority, the A-Card is associated with Beehive as the company was their first point of contact with regards to the card.

#### Overall Rating of The A-Card

- 87% say that the A-card is an outstanding product.
- Minor complaints cited relate to problems incurred in the initial stages of the card especially, the error message and problems with accessing money.
  - The majority also indicate that that the card has had a positive impact in their lives.

#### Call Centre

- The Call centre is known by less than half of the respondents.
- Therefore it is not a primary point of contact for the majority.

**Problems Experienced**

- No major problems experienced with the pin.
- Some initial problems with the POS device were identified: error message and insufficient funds.
- ATM problems include error messages and insufficient funds

**Marketing Material**

- Majority received marketing material during the A-Card introduction process.
- Those who did not read the marketing material indicated that there was no need to as the introduction process had been sufficiently enlightening about the A-Card.
- As a result, the majority (83.3%) indicates being 'very satisfied' with the introduction process and a further 11% indicated being 'satisfied' with the process.

**Feelings Towards Beehive**

- Overall Beehive is perceived to cater specifically for the kind of people interviewed in the study.

**Impact On Their Lives**

- 91.7% of respondents say the A-Card has had a positive impact on their lives?

**5.5.1 Conclusions**

- The satisfaction levels towards the A-Card amongst Beehive issued customers is stated as being excellent in most cases.
- This stated positive attitude is mainly due to the excellent associations with the card, wherein, the majority (90%) state that the charges on the card are lower than those of other banks and that the card saves them time and money.
- Furthermore, the excellent introduction the majority received from Beehive representatives when opening the account has led to the attainment of the right information relating to the card – as an example the majority know the difference between the red and the green card.
- Given this positive feedback, it is not surprising that the majority interviewed (87%) rated

the A-Card as an outstanding product.

- Accessibility of banking facilities – either via Teba Bank branches/ATM's or other banks' Saswitch machines seem acceptable (1-5km) as it is usually the distance to the respondents' nearest town.
- There do not seem to be any prominent problems associated with the A-Card amongst Beehive issued A-Card customers.
- Most of the problems mentioned with the card tend to relate to the initial stages, when network availability caused problems with access to funds and transactional activities.

#### 5.4.4 Recommendations:

(1). It would be to the benefit of the bank **to provide customers with good access to own ATM's**

**and branches** and such a strategy needs to be considered and implemented to ensure visibility and accessibility of the bank.

(2). The association of the A-Card with Teba Bank seems limited – this is mainly due to the fact that customers were issued the card through Beehive and not Teba Bank. **Marketing opportunities via radio and TV are available for Teba Bank to further enhance the association of the A-Card with the bank.** Popular radio stations are: Thobela FM and Ligwalagwala FM. Popular TV channels are SABC 1, SABC 2 and Etv.

## 5.6 Achievements

**F**igures 2 & 3 summarize the Achievements of and the Constraints faced by the IRF Programme.

Figure 2: Achievements of the IRF Programme

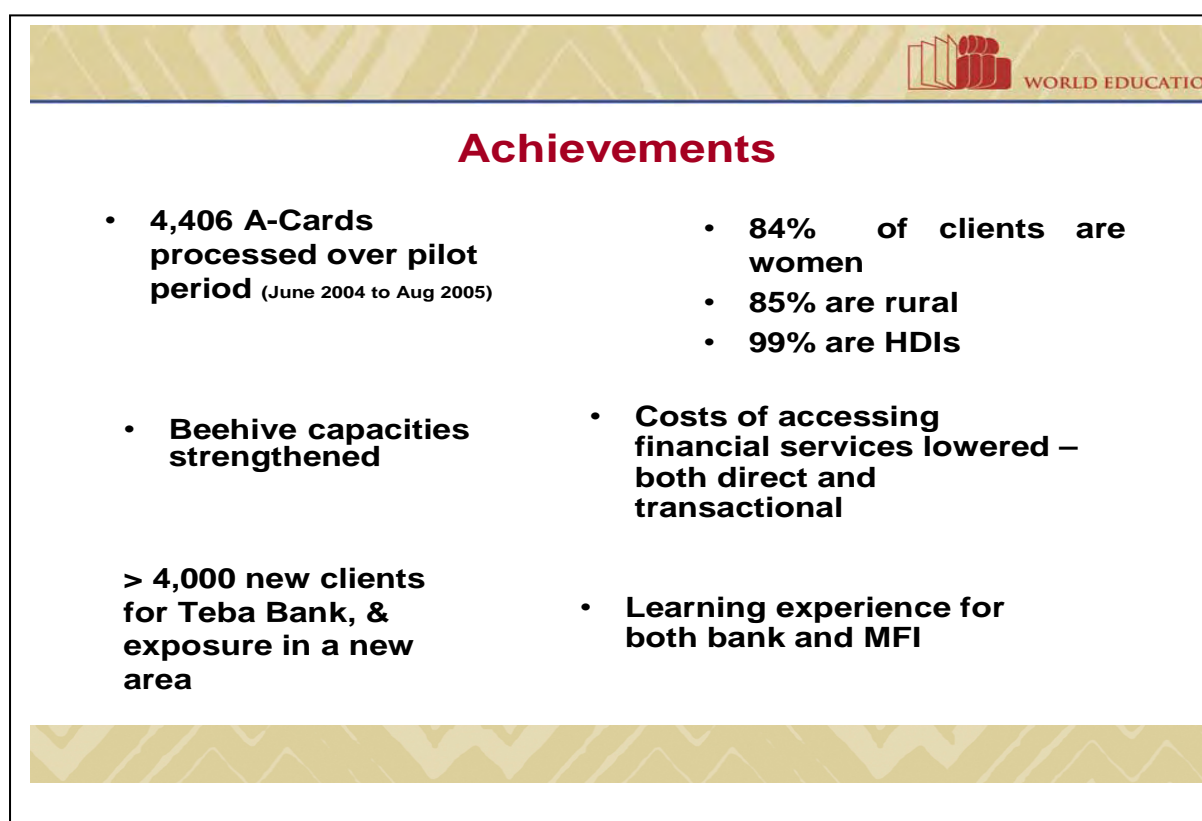
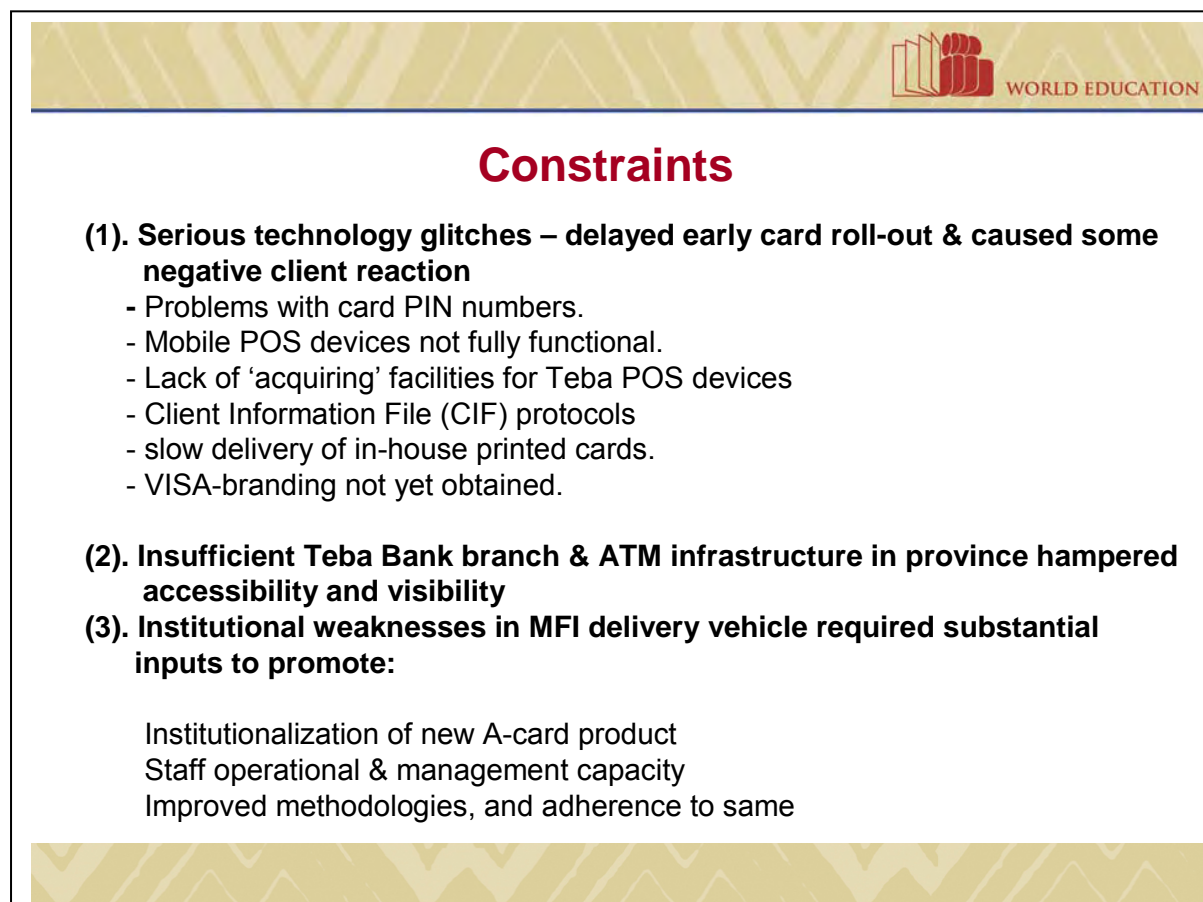


Figure 3: Constraints faced by the IRF Programme



## Chapter 6

# Bank Point of Sale (POS) Comparative Matrix

### 6.1 Overview

The matrix on the following pages was developed after consultations & interviews with Teba Bank, ABSA, Standard Bank, First National Bank and Nedbank. The 'Big Four' (ABSA, Standard Bank, First National Bank and Nedbank) also have the largest market share in terms of point of sale distribution in South Africa.

The 'Big Four' banks continue to dominate the acquiring infrastructure in South Africa according to BJM Research.

Dominance of the Major Banks In SA	
Branches	2,798
ATMs	10,241
POS	91,542

The SA Post Bank and Capitec Bank are also major players in the market but do not offer a point of sale service as yet. The Matrix compares the major banks point of sale systems in terms of:

- Criteria To Acquire a Merchant Account,
- Documentation Required,
- Geographic Accessibility,
- Mobility, Technology,
- Cards Accepted,
- Terminal Costs,
- Monthly Rental,
- Commission Charges,
- Other Services & Benefits Offered,
- Kick back to Merchants,
- Cell Phone Airtime Sales

Teba Bank are exploring a franchise model as a means of rolling out the A-Card nationally. This franchise model will be used to roll out the acquiring infrastructure. This approach is innovative and different from the method used by the other 4 large banks to roll out their POS infrastructure. The major banks (FNB/Nedbank etc) are very hands on - they own the

whole infrastructure.

From an analysis of the Comparative Matrix and Annexure A it can be determined that the Teba Bank POS device has certain advantages over other bank offerings. These advantages can be enumerated as follows:

- It is GSM based (therefore there is no need for fixed telephone line).
- It also uses USSD, a dataline similar to sending an SMS. This ensures lower communication costs between Teba & BANKSERV.
- There are lower commission charges on transactions.
- There are fewer barriers to entry.
- Teba provides a kickback to merchants.
- A-Card clients can effect more transactions than at another bank's POS device – withdrawals, purchases, cash-back, open a bank account, cell top up close their accounts, deposits.

*Kindly refer to Annexure A for more information on the Teba Bank POS Business/Franchise Model*

## 6.2 Bank Point of Sale (POS) Comparative Matrix

Item	ABSA	Capitec Bank	FNB	Ned Bank	Post Bank	Standard Bank	Teba Bank
<b>POS Device</b>	Yes	No	Yes	Yes	No	Yes	Yes
<b>Product Name</b>	ABSA Merchant Services/POS	N/A	FNB Speedpoint	Nedlink POS	N/A	Standard Bank Merchant Services/POS	Teba Bank POS
<b>Geographic Accessibility</b>	Country Wide	N/A	Country Wide	Country Wide	N/A	Country Wide	7 provinces & TEBA Bank Agents
<b>Technology</b>	Fixed Line	N/A	Fixed Line	Fixed Line	N/A	Fixed Line	GSM
<b>Mobility</b>	No	N/A	No	No	N/A	No	Yes
<b>Criteria To Acquire a Merchant Account</b>	<p>A business cheque acc with t/o of R1.2 mill p.a+. (this facility is negotiable and depends on your mthly transaction t/o)</p> <p>Min credit card t/o of R20 000 per month.</p> <p>An active &amp; well conducted Business Cheque Account with one of the major S.A banks.</p> <p>Clean &amp; proven credit record (incl all owners, members, directors, partners)</p> <p>Credible &amp; honest product or service offerings. Acceptable stock levels. Well advertised premises / business.</p>	N/A	Need to generate at least R 10 000 to R 15 000 in card transactions per month to make having the POS device viable	<p>Min card turnover of R 30 000 per month to make having the POS viable. Nedbank will look at a lower card turnover but the transaction charge will be higher.</p> <p>A credit check will also be done on the client – it must be favourable.</p>	N/A	<p>Company has to be registered.</p> <p>The company cannot be operating from home.</p> <p>Merchant facility cannot be taken on a temporary basis.</p> <p>Only South African domiciled merchants can be accepted.</p> <p>SBSA business account holders – the acc must preferably be in operation for at least 6 months.</p> <p>Min turnover for credit cards is R 10 000 per mth.</p> <p>Min turnover for debit cards is R 5 000 per mth.</p>	<p>Sales turnover of R 50 000 per mth</p> <p>Not all merchants will have the same requirements. tiered 1- 4</p>



Bank Point of Sale (POS) Comparative Matrix	ABSA	Capitec Bank	FNB	Ned Bank	Post Bank	Standard Bank	Teba Bank
<b>Documentation Required</b>	<p>Business registration documentation.</p> <p>Certified copies of Identification documents of owners/partners/members or directors.</p> <p>Business banking details.</p> <p>Personal bank details. (All owners - see above)</p> <p>VAT registration number.</p>	N/A	<p>Business Registration documents</p> <p>Certified copy/ies of ID Document/s</p> <p>SARS/VAT Registration</p> <p>Banking Details</p> <p>Proof of Residence</p>	<p>Business Registration documents</p> <p>Certified copy/ies of ID Document/s</p> <p>SARS/VAT Registration</p> <p>Banking Details</p> <p>Proof of Residence</p> <p>Certified process cheque from business bank account</p>	N/A	<p>Sole Proprietor: Authority by Sole Proprietor regarding acc conducted in his name or Application by sole proprietor to open an acc in the firm's name</p> <p>Close Corp/Co: Founding statement Certificate of Incorporation (whether it is a separate document or is endorsed on the founding statement)</p> <p>Trustees: Trustee documentation</p> <p>Also: ID documents of the sole proprietor, members, directors. Water &amp; Electricity accounts (FICA requirement) VAT Registration Certificate</p> <p>If the business has banked with another bank – 6 mths of accounts.</p>	<p>Business Registration documents</p> <p>Certified copy/ies of ID Document/s</p> <p>SARS/VAT Registration</p> <p>Banking Details</p> <p>Proof of Residence</p>

Item	ABSA	Capitec Bank	FNB	Ned Bank	Post Bank	Standard Bank	Teba Bank
<b>Cards Accepted</b>	<ul style="list-style-type: none"> <li>• Credit Cards               <ul style="list-style-type: none"> <li>○ VISA</li> <li>○ MasterCard</li> <li>○ Amex (American Express)</li> <li>○ Diners Club</li> </ul> </li> <li>• Debit Cards               <ul style="list-style-type: none"> <li>○ MasterCard-Maestro (PIN only) ABSA, Standard Bank and Boland (BOE Bank) cards, as well as all international Maestro cards</li> <li>○ VISA (PIN or signature) Absa cards and all international Electron cards</li> <li>○ Any other banks as they become technologically able (i.e. NBS, Saambou, FNB, Nedbank etc.)</li> </ul> </li> <li>• Fleet Cards               <ul style="list-style-type: none"> <li>○ Absa Vehicle Finance: Fuel and Workshop</li> <li>○ First Auto: Fuel only</li> <li>○ Ned Fleet: Fuel and Workshop</li> <li>○ Stannic: Fuel only</li> </ul> </li> <li>• Garage Cards / Petro Cards</li> <li>• Buy-Aid Cards               <ul style="list-style-type: none"> <li>○ lemas</li> <li>○ Koopkrag</li> <li>○ Pretorium Trust</li> <li>○ Cape Consumers</li> <li>○ Samba</li> </ul> </li> </ul>	N/A	VISA Mastercard Dinners Club Debit Cards American Express (have to sign a separate agreement with them)	VISA Mastercard Dinners Club Debit Cards American Express (have to sign a separate agreement with them)	N/A	VISA Mastercard Dinners Club Debit Cards American Express	VISA Mastercard Dinners Club Debit Cards

Item	ABSA	Capitec Bank	FNB	Ned Bank	Post Bank	Standard Bank	Teba Bank
<b>Terminal Costs: Monthly Rental Fee Installation/ Training Fee (Once Off)</b>	R 250.00 (plus VAT) R 350.00 (plus VAT)	N/A	R199.00 (plus VAT) R 399.00 (plus VAT)	R 200.00 (plus VAT) R 500.00 (plus VAT )	N/A	R 190.00 (plus VAT) R 380.00 ( plus VAT)	R 350.00 (plus vat) R 250.00 (plus vat)
<b>Commission Charge (Percentage of transaction value)</b>	5% per transaction (plus VAT). Minimum charge is R 500 per mth plus VAT	N/A	5% per transaction (plus VAT). Minimum charge is R300 per month.	R 30 000 upwards – 5% per transaction (plus VAT).  R 10 000 to R 20 000 - higher	N/A	Commission will be charged according to the turnover – the higher the turnover the lower the commission and the lower the turnover the higher the commission.	1.5% per transaction
<b>Other Services/benefits</b>	Cheque Verification Service (CVS)	N/A	none	1. CGS (Cheque Guarantee Service) R 2 per enquiry 2. Veri cheque	N/A	cheque verification at R 1.20 per enquiry.	Clients can effect more transactions then at another bank's POS device– withdrawals, purchases, cash-back, open a bank account, cell top up close their accounts, deposits etc  No floor limit - allows client to do a transaction even if there is no funds in his acc.
<b>Kickback to merchants</b>	none	N/A	none	None	N/A	none	Yes only on certain transactions
<b>Cell Phone Airtime Sales</b>	Service not available	N/A	Service not available	Yes: Quickpay - merchant can load virtual airtime & sell this to customers.	N/A	Service not available	Yes

A successful POS system should preferably offer the customer the following functionality:

- Utility payments
- Balance enquiries
- ATM encashment
- Salary payments
- Air time top up
- Money transfer
- Multiple paying in locations
- Visa and Maestro branded
- Loyalty programmes and discount schemes

Customers are strange creatures and their motivation for holding a debit card could be for the perceived high status that the card offers. However this needs to be weighed up by the bank against low actual usage.

Merchants can generate additional sales, fee income stream from offering encashments, air time top up income stream and offer Visa and Maestro branded cards. However point of sale rental expenses also have to be factored into the equation.

## Chapter 7 Reflections

It was stated earlier in this study that the purpose is to contribute to the existing body of knowledge on mass-market electronic banking. The question explored was how to use debit card and POS technology to broaden the provision of financial services to the poor.

This study attempted to do this by enhancing understanding of :

- Mass Market Banking In the International Context.
- The South African Banking Landscape.
- Debit Cards and Point of Sale systems.
- World Education's Innovations in Rural Finance Programme.

We saw that there are a growing number of banking initiatives around the world that use debit card and point of sale technology to broaden financial services to the poor. Cost and lack of accurate information have always been two factors preventing financial institutions from broadening financial services to include the poor. However rapid advances in card and POS technology are making it more viable for banks to enter this market.

Given current local and international developments in mass market electronic banking, what can we do to successfully implement an electronic banking initiative in South Africa? This final chapter reflects on what has been done in the past, recommends strategies for change and also provides some insight as to the way forward.

### 7.1 Necessary Building Blocks

It can be surmised that the following building blocks need to be given careful consideration when embarking on any new electronic banking initiative aimed at the mass market. (See also David Cracknell's article entitled, E-banking: Unleashing the Potential of Microfinance, MicroSave)

## 1. **Common Vision**

There must be a shared vision and sincere commitment by all parties involved to broaden financial services to include the poor. This commitment must then be translated into active implementation and roll out. Financial institutions must overcome their normally conservative approach to banking and be prepared to explore new and dynamic strategies.

## 2. **Technology**

The technology to make this vision a reality must either exist or be capable of being developed or modified. Technology is critical as it underpins the roll out of an electronic banking initiative and makes banking for the poor more affordable. This includes hardware, software and the necessary back up. The technology has to function the way it was supposed to all the time. Call Centres also play an important role in logging problems and assisting customers. However technology should not be viewed as the solution to every situation.

## 3. **Strategic Partnerships**

For a mass market electronic banking initiative to work it is important that all role players are involved from day one. Relevant role players can include banks, government agencies, MFIs, merchants/retailers, IT companies/providers, switching agents, POS & ATM suppliers, cell phone companies, Master Card, Visa.

## 4. **Target Market & Needs Driven**

The exact needs, current status and future evolution of the target market should be assessed very carefully. This will determine the nature and type of intervention required. Products targeted at the lower income group should be appropriate to their needs and be easy to use. Too often implementing partners make incorrect assumptions about the financial needs of the poor without first collecting and analysing accurate empirical data.

## 5. **Profitability, Sustainability and the Business Model**

The e-banking business model has to be realistic, achievable and mutually beneficial to all strategic partners involved. Ultimately profitability and sustainability of the electronic banking initiative is the end result for financial institutions. However

different commercial interests will drive the motivations of the strategic partners and will have to be melded into a cohesive strategy.

## **6. Product Design & Functionality**

The product should ideally be tailored to satisfy exactly the needs of the intended target market. The product should be functional and offer the customer what he requires: for example, savings & deposits, the ability to make purchases, debit orders, make account payments etc

## **7. Pricing, Affordability & Scale**

Piloting of products is also useful for gathering customer information and for effecting necessary refinements. Pricing financial products correctly is critical to the success or failure of the initiative as the poor are extremely price sensitive. Pricing is dependent on the following variables - the number of customers, the number of transactions being processed, cost of infrastructure and costs of switching services. Many financial products offered are simply too expensive for the lower end customer. Achieving scale quickly could offer one solution to reducing electronic banking transaction costs for the low income customer.

## **8. Infrastructure**

It is important that the implementing partners have sufficient infrastructure to service the target market effectively. This infrastructure could include the following delivery channels: POS machines, ATMs or kiosks. A physical bank branch presence while having many other advantages is too costly as a delivery channel to the mass market. However despite the cost disadvantage for banks many low income clients prefer their bank to have some type of physical presence in their community.

## **9. Regulatory Issues**

Regulation can impact on an e-banking initiative in a number of ways: Financial institutions can be coerced into having a significant portion of their portfolio made up of low income clients. Low taxes & import duties can impact on the cost of ATMs and POS devices. Government in South Africa is making a determined effort to ensure that the majority of South Africans have access to finance and banking services.

#### 10. **Other Market Segments & Additional Features**

The business model should include other market segments and additional features which help to cover the cost of the electronic banking initiative and also make having the point of sale more viable for the merchant. This is intended to increase the number of transactions. Also called volume drivers: market segments include social welfare payments (pension, disability, child support etc) while additional features could include; the sale of cell phone air time & electricity tokens.

#### 11. **Level of Education & Financial Literacy of the Target Market**

The levels of education and financial literacy of the intended target market will ultimately impact on the success or failure of the initiative. Customers may be slow to take up the product because they are not familiar with its use or unsure of its benefits. Customers will therefore have to be adequately informed and trained in the use of the product.

The above factors are not intended to be comprehensive solutions to the issues raised but are merely intended to provide guidance and to stimulate further discussion and debate on the subject matter.

In conclusion delivering financial services to the poor has long been dogged by high costs and poor quality information. Technology offers the potential to dramatically decrease operational costs improve the quality of financial information and make banking for the poor more profitable and less risky for mainstream financial institutions. However improvements in technology must be translated into broadening of financial services to the poor. There is also the potential for developing economies to leapfrog developed nations in their communications and banking infrastructure.



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